

Toward a New Japanese-style Employment System

By Naruse Takeo

Now, in the final phase of the 20th century, Japan is undergoing vast changes.

There are several factors behind the changes, but the most important is the arrival of a global society. In addition, the population of Japan is aging, the birthrate is declining, and technological innovation is occurring at a rapid pace.

Some people may attribute these changes to a change of mentality on the part of the Japanese people. Business corporations will have to change if the economic and social environment changes. And if business corporations change, employment and labor practices will have to change too.

Then, is everything in Japan changing to conform to international standards?

Probably not. Many Japanese people and corporations, though undergoing some change, have a nostalgic feeling for things peculiar to Japan, something that calms their mind.

This is not mere nostalgia but seems to be something more rational that has its roots in human nature itself, a consciousness shared by most Japanese.

Various aspects of changes in environment

The primary goal for Japan immediately after World War II was very clear: catching up with Western countries by rebuilding its economy.

With the goal clear, the long-term conservative administration and the bureaucracy under it displayed superb efficiency in making the Japanese economy grow and progress vigorously. This success, however, made Japan's leadership excessively self-confident and implanted an administration-dependent mentality in the minds of the Japanese people.

However, day is followed by night, and both the international and domestic environments changed under the facade

of success, the changes showing up swiftly and suddenly with the collapse of the bubble economy. The result of the collapse is what we see now.

Advent of a global society

Two major developments forced the Japanese economy to become global.

One was that the Japanese economy had become very large and unless it went global through opening the market and carrying out deregulation, Japan would cause problems for other countries and would eventually be unable to continue growing.

The other is that the Cold War structure of international relations collapsed and the whole world was thrown into a market economy.

Since both administration and business must shift from Japanese standards to global standards, therefore both employment and labor cannot remain unaffected by globalization.

Aging of population and decline in birthrate

The average life-span of the Japanese has become the longest in the world partly as a result of Japan's economic prosperity. At the same time, the birthrate has dropped sharply, though the cause of the decline is not entirely clear. It may be due to material affluence or a rise in the percentage of adolescents who advance to college. The total fertility rate (the average number of babies that women bear in their lifetime) is lingering slightly above 1.4, and no signs of an increase are visible.

As a result, the aging of Japan's population is progressing at a rate not found in any other country, dealing a serious blow to the nation's social security systems. In addition, the aging of the work force is having a marked impact on the personnel and wage systems of business corporations.

Because wages and promotions at Japanese business corporations are based on the traditional seniority sys-

tem, the aging of the work force increases the number of workers in managerial or supervisory positions who get large salaries, and automatically pushes up the overall cost of personnel.

Progress in technological innovation

Progress in technological innovation, too, is greatly affecting the economy, business corporations and personnel management systems.

One reason for this is that innovations are easily accepted by young people, though disliked by the elderly. Human brains usually lose flexibility when they get older.

Another reason is that systems in Japanese society and business corporations were not suited to producing full-scale innovations.

Systems in postwar Japan were designed to set some visual objectives and attain them through concerted endeavors by all the people. The practice of performing only the job assigned to one in a top-down system does not lead to creative innovations.

This is why it is often said that the Japanese are good at improving things that others have invented but lack the ingenuity to develop basic technologies.

With an ability for improvement only, however, the Japanese cannot survive the harsh international climate hereafter.

Changes in young people's mentality

Young people, who are the group likely to be most affected by the trends of a new age, are evidently in the midst of a change in perception. With their unprepossessing sensitivity and mental flexibility, they are beginning to question the practice of conformity in Japanese society, which requires self-effacement in a group and holds cooperation to be more valuable than individuality. An increasing number of young people are critical of the lifetime employment and seniority systems of

personnel management at Japanese business corporations.

This is an indication of the healthy mentality of young people who want to break out of the mentality of collectivism and stereotypes, and give full play to their individuality and originality. This will bring diversity to Japanese society and business corporations, and may serve as a catalyst in the birth of original technologies and new cultural trends.

Both our society in general and the business community should duly appraise such changes in young people, who belong to a minority group compared with the aged, and a system should be structured that harnesses their energies for the progress of Japan.

Direction of changes in the employment structure

Will the Japanese employment structure based on the lifetime employment system change in response to the said structural changes? Let's study this problem next.

Lifetime employment system destined to collapse partially

The vital question on the labor front today may be whether Japan's traditional lifetime employment system will collapse.

Some people predict that the lifetime employment system will collapse soon, because business corporations cannot support this system any longer. But others assert that the lifetime employment system will persist, because it has its roots deep in Japanese culture.

Certainly, the core of the work force in Japan at present still consists of workers employed under the lifetime



Opportunity and uncertainty: Starting their careers as dispatched employees

employment system. It is undeniable, however, that workers unable to be integrated in the lifetime employment system are gradually increasing. Moreover, business corporations are beginning to realize they cannot afford to stick to the lifetime employment system.

Inasmuch as both labor and employment sides have such views, a new employment system will be created where the two sides reach accord.

If we draw a conceptual chart of possible employment systems in the future, we have something like Figure 1.

On the labor side, there are diverse types of workers. Some prefer a long-term job security based on the lifetime employment system. Others prefer stable, good-quality employment for a limited period. Yet some others like a highly flexible situation and prefer freedom to work only when they want to work. As has been said, workers in the first category are gradually



Serious shopping: Long-term employment has become one of the options

decreasing.

Business corporations need a core of loyal workers with a strong sense of belonging—workers suited to the lifetime employment system—but at the same time, they also need workers available whenever they need extra manpower. Labor costs would rise too much if they hired employees only under the lifetime employment system in lieu of workers needed for two to three years or two to three months only.

When employers' and workers' needs match, roughly three different groups of workers emerge: The first is the core group with abilities acquired over

many years and working under the lifetime employment system. The second is the group with specialized skills and hired under term contracts. The third is the flexible employment group of the part-timer type.

What will change and what will remain

Even if changes force business corporations and employees to adapt to a new environment, the human mind cannot change so quickly. Which type of employment individual workers will choose depends on each worker's needs. Business corporations are prepared to give their employees the option of mode of employment.

Workers belonging to the flexible employment group will increase, but some workers will remain in the core group, the long-term stability type. This is the near-term prospect for the nation's work force.

Employment portfolio and expected picture

For each business corporation, it now becomes important how to combine the

above three groups of workers to best meet its individual needs.

Just as the package of stocks, bonds, and other investment vehicles held by an investor for the management of his or her assets is called a portfolio, the combination of diverse types of employees at a business corporation may be called an employment portfolio. Corporations must compose an employment portfolio with the highest cost/performance ratio.

The best employment portfolio will differ completely from one industry to another and from company to company.

At many supermarket and restaurant chains, employees under long-term employment contracts represent only 10% to 20%, with most workers being part-timers.

Among research and development-type companies and the research and development departments of big business corporations with prestigious histories, there are cases where people who have distinguished abilities as specialists are hired under two- or three-year contracts.

In Japan, employment contracts are limited under the law to two types;

namely, those with indefinite contract periods and those with contract periods of up to a year. There is much debate, however, over the advisability of liberalizing the periods of employment contracts.

Against such a backdrop, corporations have long attached particular importance to the role of employees hired under contracts of an indefinite period. Often cited as one of the features of the Japanese corporate employment system, such employees identify devotion to their work with the company's long-range management policy, and accomplish good results, to the satisfaction of both the management and themselves from a long-range perspective.

If a company hires a new college graduate, keeps him or her on the payroll until the mandatory retirement age of 60 and pays a retirement allowance of the amount generally accepted in Japan, the total cost would amount to ¥300 million. Hiring a new college graduate, therefore, means concluding an advance contract to pay ¥300 million.

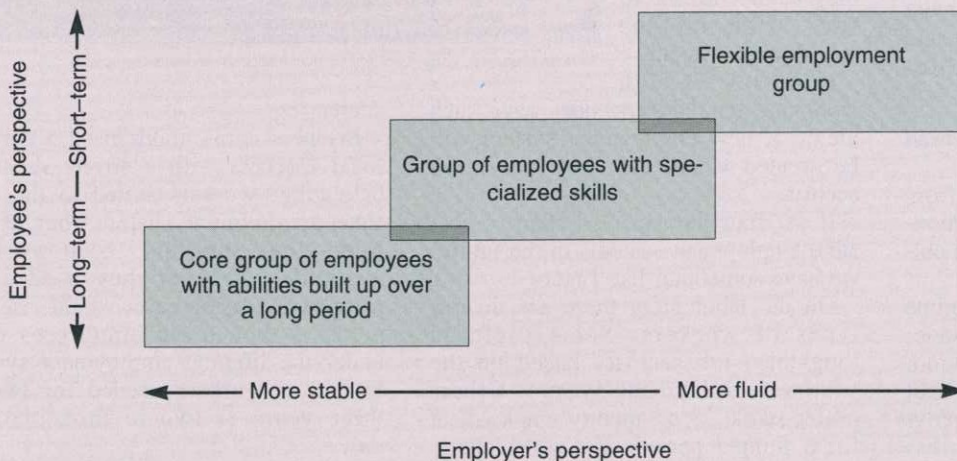
At the average Japanese business corporation, employees under long-term contracts represent about 80% of the total workforce, and experts with specialized skills hired under short-term contracts of up to one year account for less than 5%. The rest are part-timers.

It is expected hereafter that employees under long-term contracts will decrease to 60-70%, while employees with specialized skills hired under short-term contracts will increase slightly also.

It should be mentioned here that the way from one employment status to another is always open to employees at Japanese business corporations. An employee can shift from

Figure 1. Employment relationship and length of employment from the perspective of employers and that of employees

Employment relationship and length of employment



Note 1: Typical forms of employment patterns.

Note 2: Shifting from one status to another is possible.

one status to another at any time if his or her wish and the employer's policy are in agreement.

Changing treatment and practices peculiar to Japan

Changing of the employment structure in industry will inevitably lead to changes in personnel treatment systems in business corporations. We will now examine this development.

In Japan, one often hears the phrases "external labor market" and "internal labor market" used. The "external labor market" refers to a general labor market covering the whole country or a given region, whereas the "internal labor market" refers to a market within a corporate organization or a certain corporate group.

The phrase "internal labor market" has acquired a positive meaning, because Japanese business corporations have always been mindful of fostering the growth of able employees within their organizations and tapping their abilities. To this end, they have tended to appoint the right people to the right posts through rotations under a personnel transfer system within their organizations and under an employee loan system within their corporate groups.

Such a personnel management policy achieved great successes, particularly when companies were expanding continuously. However, after companies stopped growing and it became necessary to cut the number of lifetime employees, management began to rely more on the external labor market than previously.

While the wage and treatment system in the internal labor market is basically the company's own in-house system, the wages and treatment of personnel hired from the external labor market are determined by the practices and customs of that market.

Hereafter in Japan, the external labor market will see large growth. In this regard, the Government is at present in the process of abolishing many of the regulations relating to the worker dispatching service and the private

employment agency business.

Treatment of regular employees an important matter

All told, the percentage of regular lifetime employees will decrease hereafter, and yet they will still represent the majority of manpower on the payroll. Because personnel expenditure is a fixed cost for business corporations, the wages and treatment of regular employees are an important issue for corporate management.

As young people's sense of values diversify and greater flexibility is required in personnel management, business corporations are preparing multi-career paths in employment, such as core jobs, auxiliary jobs, specialists' jobs, managerial jobs, and an option of diverse courses for people aged 45 and over. They are making a major departure from the traditional personnel management policy based on seniority only and switching to the policy of considering individuals' abilities, and are furthermore beginning to base wages and promotions on individual accomplishment.

Seniority system to survive in part

The seniority system, which is an integral part of the lifetime employment system, is undergoing a major change.

If the seniority system continues in Japan hereafter, even if only in vestigial form, its validity period will be limited to 10 to 15 years from the time of joining a company upon graduating, and the annual wage increase will be based on skills acquired through ability at work, and not on length of service.

If an employee acquires a certain skill and begins to display his or her ability, the company will pay a wage based on ability to do the job or on what he or she has accomplished through work.

Wages based on jobs versus wages based on ability

In Western countries, wages are usually based on the type of work and are adjusted up or down according to each employee's performance.

In Japan, on the other hand, "the

ability to do one's job" is used in lieu of the job as the factor for determining wages. Jobs can be objectively defined, but the ability to do one's job is a human factor and thus is difficult to evaluate precisely.

Japanese business corporations, however, will not be able to abandon the practice of determining wages on the basis of this human factor, because in Japan, hiring an employee, particularly for long-term employment, means hiring not merely a professional skill or ability, but a human being.

Without doubt, the wages of people hired from the external labor market will be based on job type, and the wages of long-term employees will not remain unaffected by that. Nevertheless, employee wages will still be based primarily on "ability".

In all probability, this is rooted in another feature of Japanese business management: "the respect of Man", this being a Japanese philosophy that considers a company a group of human beings.

Conclusion

Changes in the business environment are recasting the Japanese employment and personnel management systems into the Western type or into alignment with global standards.

Despite such changes, however, Japanese business executives and most corporate employees believe that a business corporation is not an organization based on jobs only, but is a group of human beings, and that humans are its most important constituent.

At the root of this thinking is an instinctive conviction that treating employees not as tools that do their jobs according to a manual but as human beings produces better results for industry and companies in the long run.

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